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SUBJECT: COLOMBIA'S SMALL FARMERS--COOPERATION AND CREDIT
KEY IN GLOBALIZED ECONOMY

Summary

¶1. Historically large agricultural producers in Colombia have benefited from government largesse to the exclusion of small farmers. Despite government institutions intended to help them get loans, small farmers often must turn to the informal lending system where they pay interest rates in excess of 100 percent. To remedy the situation the GOC has tripled loan subsidies to small farmers in the last four years to a projected USD 300 million in 2007 and recently started a USD 100 million assistance fund to make small farmers more competitive. Still, small farmers are unlikely to survive in a globalized economy unless they work together cooperatively. The Colombian coffee growers federation offers a good model of how small farmers can thrive in a cooperative association. The impact of U.S.-Colombia Trade Protection Act (CTPA) on basic grain producers should have substantially less negative impact on small farmers, the majority of whose crops are for subsistence consumption. Reduced grain prices will benefit the urban poor as well as the livestock sector which depends on grains for feed. The CTPA offers Colombia the opportunity to develop its comparative advantage in tropical agricultural products, where small farmers are better poised to compete. End
Summary

A Focus on Big Agriculture...

¶2. Colombia's agricultural system historically channeled government benefits to a small number of beneficiaries. Powerful agricultural groups lobbied for legislation that benefited large producers and absorbed the bulk of government credit. As a result government incentives supported a high rate of growth among large producers relative to most developing countries (just under 4 percent from the 1950s-1990s). Recognizing limitations on agricultural credit, the GOC established three complementary institutions in the 1990s to help small farmers: Banco Agrario, a bank that makes agricultural loans; the Fondo para el Financimiento del Sector Agropecuario (FINAGRO), a second-tier bank that subsidizes agricultural loans by Banco Agrario and other banks; and the Fondo Agropecuario de Garantias, (FAG), a fund administered by FINAGRO to guarantee such loans.

¶3. According to Lorena Garnica, special advisor to the Minister of Agriculture and Rural Development (MinAG), all three institutions have had trouble meeting the needs of small farmers. Despite its development mission, Banco

Agrario has favored profit-making by focusing on risk-adverse investments. The bank invests over half its USD 4.5 billion equity in government bonds and most of the rest in relatively safe loans to large agricultural producers. FINAGRO and FAG also have had problems helping small farmers. FINAGRO subsidies are overly concentrated in a small number of Banco Agrario loans or loans to large agricultural producers. FAG, with a guaranteed income source from FINAGRO profits, lacks incentive to carefully manage its own resources. Until recently, FAG simply guaranteed 100 percent of most Banco Agrario loans without any risk analysis. Not surprisingly, its default rate has hovered between 25 and 30 percent.

Leaves Small Farmers Out

¶4. Despite a bank devoted to agriculture development, subsidized agricultural loans, and loan guarantees, small farmers still have trouble accessing credit. Luis Criales, the president of FINAGRO, explained that banks do not like to make loans to small farmers because administrative costs usually outweigh any income they might earn for banks, regardless of discounts and guarantees. Even when banks make loans to small farmers, processing them can take six or more months -- time that small farmers who need money to plant crops usually do not have. Criales said therefore government assistance usually goes to large agricultural producers -- who often use it to restructure existing private sector loans on more favorable terms. The system forces small farmers into the informal lending system with interest rates in excess of 100 percent. Criales said this has stifled the agricultural system, which has grown at a significantly slower pace in recent years than the Colombian economy as a whole (2.4 percent versus 7.5 percent in the first half of 2007).

New Programs to Help Small Farmers...

¶5. The GOC is working to adjust the agricultural credit system to offer greater assistance to small farmers. FINAGRO tripled subsidies on loans to small farmers since 2003, from USD 100 million to USD 300 million. Over 100,000 small farmers received loans subsidies in 2007, representing 80 percent of all FINAGRO subsidies. In 2007 the MinAg started the USD 120 million "Agro, Ingreso Seguro" (AIS) program to increase small and medium farmer competitiveness. AIS's largest component provides USD 35 million for risky projects with high social returns, such as helping displaced persons develop a farming business. AIS also allocates USD 30 million (USD 10 million earmarked for small farmers) to subsidize loans for agricultural exports and USD 30 million to help small farmers repay up to 40 percent of loans for export projects.

¶6. One of smallest, but most important, aspects of AIS provides USD 7 million in technical assistance for small and medium sized farmers (assets up to USD 300,00). Ivan Estaban, a consultant who helped develop and implement AIS, said technical assistance will help small farmers overcome their biggest obstacle: knowing what programs are available. Small farmers can get advice on farming practices, obtaining loans and getting other assistance, including AIS programs. Under the program, small farmers will be able to "hire" private technical consultants paid for by AIS.

But Agricultural Cooperatives Still the Way to Go

¶7. Rafael Mejia, head of the Sociedad de Agricultores de Colombia (SAC), an umbrella association of all agricultural producers, said AIS will increase agricultural competitiveness for farmers of all sizes. He noted that AIS will play a particularly important role in rural areas,

typically poorer and with lower levels of infrastructure and education, where agriculture is the single most important economic activity. One-half of all rural households have at least one family member involved in agriculture.

¶8. Still, Mejia thinks small farmers will not survive in a modernizing economy unless they work together in cooperative associations. Ciales agrees that agriculture cooperatives represent the best chance for small farmers and noted that FINAGRO has started working directly with cooperatives, such as a program to subsidize loans from agricultural cooperatives to small farmers. FINAGRO now considers small farmers in a cooperative as a single small farmer (for the purpose of getting a better loan subsidy), even if their collective assets qualify them as a medium or large farmer.

Coffee: A Model for Competitive Small Farmers

¶9. Gabriel Silva, head of the Federacion Nacional de Cafeteros de Colombia (FedeCafe), said the coffee industry shows how successfully small farmers can work together. Although he thinks AIS will do a "great job bringing more financing to the rural sector," Silva pointed out that the coffee industry, which represents 30 percent of agricultural employment and 25 percent of agricultural GDP, has successfully competed internationally for almost 100 years through cooperative association. 90 percent of Colombia's 560,000 coffee growers are small farmers with plots less than three hectares (7.5 acres). FedeCafe members contribute to a common fund which pays 1,100 experts to provide technical assistance, build infrastructure, and make loans to small coffee growers. Silva said that because they work together, coffee growers are well positioned to "take advantage of increased international market access" by expanding into new export crops. He noted that coffee growers are already starting to add new crops like corn and asparagus, and that the income from these crops is rapidly catching up to the income from coffee.

Colombian Agriculture and the Global Market

¶10. Colombian and U.S. agricultural markets complement each other. According to the Institute for International Economics, Colombia has a comparative advantage in tropical agricultural products while the U.S. has the advantage in temperate zone products. Bananas, after flowers and coffee, consistently ranked as the most significant agricultural export from Colombia to the U.S. between 2000-2005 (at about USD 200 million per year banana exports exceeded all agricultural export products below them combined). Conversely, between 2000-2005 coarse grains, wheat and soybeans dominated U.S. agricultural exports to Colombia, combining for approximately 60 percent of all such exports and rising in value from USD 250 million in 2000 to 400 million in 2005. The MinAg estimates that with the CTPA's increased market access, farmers who switch from wheat to the tropical fruit uchuva would earn enough to buy 70 times more wheat than they could grow.

¶11. The typical small farmer, according to Rafael Mejia, has assets under USD 25,000 and grows a mix of beans, potatoes, yucca, non-industrial corn and plantain. Mejia noted that while small farmers represent 80 percent of Colombia's 3.3 million farmers, excluding coffee, they generate only 20 percent of agricultural income. The discrepancy largely results from small farmers dedicating approximately 65 percent of their production to subsistence consumption. The remaining one-third of small farm output which is sold does not typically include products in competition with U.S. imports, minimizing small farmer vulnerability to negative impacts of the CTPA.

¶12. Colombia's large agricultural producers, on the other

hand, typically grow capital intensive crops for domestic sale which are similar to U.S. exports to Colombia (such as coarse grains, wheat, and soybeans). Large producers accordingly face greater exposure under the CTPA. A 2004 study by the InterAmerican Institute for Agricultural Cooperation estimated, for example, that the CTPA could lower the price of soybeans in Colombia by 25 percent, causing a drop in domestic production between 50-70 percent. Even so, the Institute's analysis noted that the price reduction in industrial crops generated by the CTPA would lead to gains that would outweigh losses for Colombian agriculture -- particularly in the livestock industry -- since these crops are generally used as animal feed.

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